

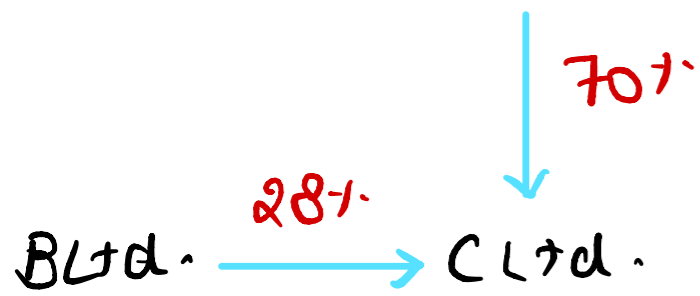
Accounting for Investment in Associates in Consolidated Financial Statements

Meaning of Associate: Enterprise in which investor has significant influence* & which is neither subsidiary or joint venture of Investor.

* Significant Influence: Power to participate in financial / or operating policy decisions of investee. It may be gained by statute, agreement or share ownership (Assume 20% or more unless otherwise proved)

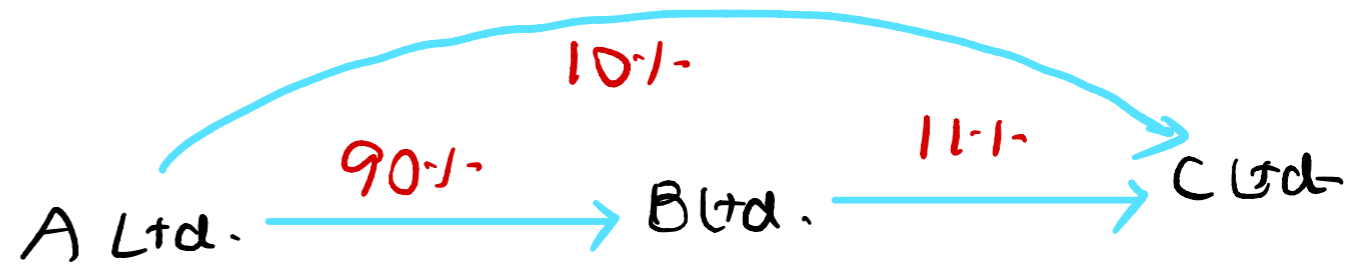
Example:

(a) A Ltd.



A Ltd. is holding co. of C Ltd.
 C Ltd. will be associate of B Ltd.

(b)



A Ltd. is holding co. of B Ltd.
 A Ltd. has total of direct & indirect (10% + 11%) of C Ltd. in C Ltd., so C Ltd. is associate of A Ltd.
 For CFS, holding will be 19.9% (10% + 90% of 11%)

Accounting Treatment

Separate Financial Statements

Apply AS 13

Investments recorded at cost xxx
 - Pre Acquisition Dividend (xxx)
 xxx

Consolidated Financial Statements

Temporary

Apply AS 13

Permanent

Use Equity Method of Accounting (AS 23)

- Temporary:
- a) Investment is acquired & held to dispose off in near future **OR**
 - b) Investee operates under long term restrictions which impair its ability to transfer funds to the investor.

- Equity Method of Accounting:
- 1) Investment recorded at cost xxx
 - Pre Acquisition Dividend (xxx) xxx
 - 2) Calculate Goodwill / Capital Reserve (**Identify / Disclose**)
 - 3) Post Acquisition Profits (Revalued): Our share
 Investment in Associate A/c - Dr (Post Profits)
 To consolidated P&L A/c Share
 - 4) Post Acquisition Dividend to be deducted

★ **Step Acquisition:** If shares acquired in steps, that is in parts, then Goodwill / Capital Reserve should be calculated for each part.

Example: X Ltd. acquired 10% shares of B Ltd. on 1/4 & further 15% on 1/10.

Cost of Investment for 10% ₹ 1,00,000 & for 15% ₹ 1,55,000

Net Assets of B Ltd. on 1/4 850,000 & on 1/10 10,00,000.

- ★ If Investment in Associate becomes negative: Discontinue recording further loss
- ★ Use uniform Accounting Policies
- ★ Treatment of Proposed Dividend: Compute investor's share of results without taking into consideration the proposed dividend.
- ★ Consideration of Potential Equity share of Investee by Investor: It should not be taken into account for determining voting power of the investor.